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Commentary

Average Joe

Robert Passikoff, Feb 12, 2009 05:00 AM

Starbucks is working to convince customers that it is not "expensive" and just an average cuppa joe! It's the beginning of a campaign to persuade consumers that not all their offerings cost four bucks a cup. They're going so far as to train barristas to tell customers that they are misinformed, and the average price of a beverage is only \$3, and that most items cost under \$4. Just what the average Joe wants to hear first thing in the morning!

This is yet another move by Starbucks to reposition for the current economic landscape, the thing it blames most for its customer defections and attendant sales declines. Last year it introduced a loyalty card and began offering a dollar-off coupon for a cold beverage after 2 p.m. with proof of purchase from that morning. But Starbucks sales have been in decline for a while now, and these declines preceded the economic downturn, and therein lies the problem with its class-to-mass strategy.

While the economy is crumbly, and there are always people who are price sensitive, and while people are indeed counting their pennies, Starbucks's problems run deeper than just price perceptions.

Most of what it faces has to do with the fact that the category has changed. There isn't a major city anywhere where you can't currently get a more-than-acceptable, economical, non-Starbucks recreational beverage.

What was once "delight" is now "expectation" and that change was accompanied by a shift in price-value perceptions, which is a) why \$4 -- even \$3.50 -- seems a lot to pay for 16 ounces of coffee, and b) why a generation of consumers don't think twice about getting a latte at Dunkin', McDonald's, or their local coffee shop.

According to our 2009 Brand Keys Customer Loyalty Engagement Index, Starbucks's own customers rate the brand No. 3 behind Dunkin' and McDonalds, and price is actually the third most-important loyalty driver.

So being price conscious is fine, and being seen as a value-brand even better, but Starbucks needs to wake up and smell the coffee and acknowledge that there are far more leverageable values than price.

Play that card long enough and you end up a commodity.